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In response to agricultural shippers, who rely on good market information and assistance, USDA created this semiannual report as an update on the ocean container market's cost and service trends. The report is the result of input from large and small agricultural shippers, including shippers' associations, controlling over 150,000 40-foot equivalent units, split nearly evenly between dry and temperature-controlled (refrigerated and frozen). Input was also received from vessel and non-vessel operating ocean carriers, as well as freight forwarders, in key U.S. agriculture import and export trade routes. Although it is not a statistical sampling of the population of agricultural exporters, every attempt has been made to contact a broad range of shippers.

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Agricultural Ocean Transportation Trends December 2001

The Bottom Line: *With the waning economy, demand for U.S. exports is declining, and ocean container freight rates are reflecting this trend. As reported in the February 2001 issue of this report, container rates have fallen, although not as quickly as expected. Agricultural shippers are concerned that the relatively low rates will jeopardize the service they receive from ocean carriers. However, in an effort to retain customers, carriers are now willing to negotiate contract terms, such as service elements, previously not open to discussion.*

Overview

Global Economic Cooling and Decline of Freight Rates: The result of the global economic slowdown and diminished U.S. exports is that the demand for container space continues to drop, and rates are reflecting this declining demand.

Contract Trends—Service Differentiates Carriers: There is a presumption that rates will hit “rock bottom,” so, while agricultural shippers continue to keep an eye on the overall rates, carriers are now primarily selected according to service capabilities.

Contract Duration: Carriers are hoping for rates to turn upward and are generally unwilling to commit to current rates for longer than a 12-month contract term.

Excusing Shipper Performance by Amendment or “Force Majeure”: In hopes of maintaining a relationship with the shipper and the opportunity to carry that shippers’ cargo in the future, force majeure clauses are being amended.

Surcharges: During 2001, all-inclusive contracts have become increasingly common, although they are clearly not the majority. Most contracts continue to allow carriers to impose new surcharges during the term of the contract.

War risk: Due to the current activity in the Middle East, war-risk surcharges are being imposed on shipments to ports in the Middle East and voyages through the Suez Canal.

Confidentiality Becoming a Reality: A new trend is appearing in the latter half of 2001—increased confidence by shippers that their contract rates are remaining confidential.

Impact of Consolidation and Capacity Reduction: Capacity reduction initiatives have, so far, not adversely impacted the availability of transportation options in most trade lanes.

Port Congestion: While port congestion is not currently being experienced and is not expected to be a major problem during 2002, avoidance of congested ports remains a criterion for agricultural shippers in their selection of carriers and routing.

Uncertainty Beyond Economics: Should terrorist activity resume or increase or the war effort expand, it is quite possible that the ability to ship agricultural commodities from U.S. ports could be hindered.

Appendix I: Aftershocks of the September 11, 2001, Terrorist Attacks

Appendix II: The Cost of Exporting Agricultural Products to Asia

Summary

USDA's *Agricultural Ocean Transportation Trends* report is designed to provide an update on the ocean transportation environment and a forecast of expected developments based upon trends observed by participants in the agricultural export and import community. The cyclical nature of ocean transportation economics reflects overall global economic realities, which impact the volume and destination of U.S. exports, the volume of imports, and demand for ocean transportation services. The events and the aftermath of September 11 have created unforeseen disruptions in the emerging economic trends of the second half of 2001. The post-September 11 environment is causing agricultural exporters and importers, freight forwarders, non-vessel operating common carriers, ocean carriers, and port authorities to reassess practices and expectations for the future. This report reflects both the cyclical trends in this industry and the significant impacts of September 11 and its aftermath.

Global Economic Cooling and Decline of Freight Rates

The U.S. economy has been cooling throughout 2001, with the rate of slowdown accelerating significantly during the third and fourth quarters of 2001. The slowdown is not limited to the United States; it is global in nature. As the global economy wanes, foreign consumer demand and the ability to pay for agricultural products imported from the United States also declines. This is exacerbated by the continuing high value of the U.S. dollar making U.S. agricultural products more expensive at a time when the foreign consumer cannot afford to pay more.

The result of the global economic slowdown and diminished U.S. exports is that the demand for container space continues to drop, and rates are reflecting this declining demand. The rates for U.S. outbound dry containers, particularly westbound transpacific rates, are approaching historically low levels. Virtually all U.S. agricultural exporters are paying less for transportation than they were in early 2001 when rates were already perceived to be extraordinarily low.

Export container rates are currently so low in most trade lanes that agricultural exporters are split as to whether rates will continue to drop. Over half of those contacted believe that they will be paying even less for ocean transportation during 2002, while the others expect rates to stay at approximately their current levels. There is simply no expectation that rates will increase, despite efforts during the third quarter of 2001 by various carrier stabilization agreements to establish "floors" for low-valued commodities such as hay, paper scrap, and waste (see appendix II).

Shippers are worried that the reduced level of import shipments and, thus, import revenues to the carriers will provide less justification for carriers to reposition containers at such low rates. Reduced inbound revenue provides less incentive to carry outbound containers at rates below variable costs. For example, approximate costs to load a container on ship are: Tokyo, \$300; Taiwan, \$27; Korea, \$23; China, \$10; Hong Kong, \$150; and the United States, \$199. The carriers must absorb these costs to simply load

or off-load the container. It is remarkable that commodities are reportedly moving in certain transpacific, westbound trades at \$225 per 40-foot equivalent unit. Shippers appear increasingly concerned as to the continued viability of these trade lanes.

In certain trades, however, vessels are relatively full. In the U.S. to Japan trade, most vessels are reportedly moving close to capacity. However, in the U.S. to China, Taiwan, and Hong Kong trade lanes, vessels appear to be at 50 percent capacity, and rates are reacting accordingly. There is the growing concern among agricultural shippers that, as more carriers reduce capacity, they must balance their demands for lower rates, to be competitive in foreign markets, with the need to keep quality carriers in business.

The year 2002 promises little change. There is a great deal of uncertainty as to how carriers can reduce overcapacity while absorbing new ships, which will be delivered during this period. This leads to the present uncertainty in the shipper community as to whether service will remain intact as transport rates remain at historically low levels.

Contract Trends—Service Differentiates Carriers

Rates are so uniformly low, they are no longer the primary determining factor for carrier selection. There is a presumption that rates will hit “rock bottom,” so, while agricultural shippers continue to keep an eye on the overall rates (the base rate plus the surcharges), carriers are now primarily selected according to service capabilities.

The paramount service issue, particularly among the shippers of chilled and frozen agricultural products, is equipment supply. Carriers are being selected on basis of the availability of the appropriate equipment, primarily refrigerated containers. There is also an increasing demand for humidity- and temperature-controlled containers. Agricultural shippers are interested in other services as well, particularly container tracking, transit times, frequency of sailing, and on-time delivery.

All of these elements are being increasingly incorporated into the terms of negotiated service contracts. The shift, since the implementation of the Ocean Shipping Reform Act of 1998 (OSRA), away from shipments under the published tariff to contract shipments pursuant to negotiated contract terms has largely been completed. Well over 90 percent of agricultural commodities (both export and import) appear to be shipped under negotiated contract and, in many cases, 100 percent under contract terms. Agricultural shippers report, without exception, that carriers are more willing to provide favorable terms this year than last year.

In reference to the terms being negotiated, the current trend in contracts reflects the overall economic environment in ocean shipping--excess capacity. Excess capacity continues to grow as additional new container ships are coming into service and as the global economic weakening translates into reduced shipments, both inbound and outbound. In sum, demand for container space is diminishing while supply continues to grow. Agricultural shippers report that carriers are increasingly willing to negotiate very

short-term contracts with minimal volume commitments and are aggressive in offering attractive contract rates. In addition, carriers are increasingly more flexible in negotiating terms of service beyond volume and rates, such as delivery date guarantees.

During 2001, carriers have become increasingly more willing to negotiate, not only the volume and rate found in the standard appendix to the contract boilerplate, but also the boilerplate itself. In previous years, it was virtually impossible for all but a few of the largest, most powerful shippers to negotiate the boilerplate terms. This is a significant new development, as service elements found in the boilerplate are no longer outside the scope of negotiations. Consistent with this trend, shippers are reporting for the first time that they are able to obtain most of the service elements they are requesting.

Shippers, however, remain unsuccessful in negotiating terms concerning cargo liability. Shippers continue seeking to increase the level of the carriers' financial responsibility for delivering the cargo in the same condition in which it was tendered. However, most contracts specifically state that the terms on the bill of lading will prevail over contract terms to the extent that there is a conflict. Central to the bill of lading are terms relating to cargo liability.

This is a principal reason why a current negotiating issue between shippers and ocean carriers relates to the supremacy of the contract. Unless the contract terms are deemed in the contract to prevail over the bill of lading terms, any special negotiated provisions relating to cargo liability in the contract are meaningless. Thus, the focus is on resolution of the conflict issue as opposed to liability. It is expected that the conflict issue will remain a primary negotiating point between shippers and carriers for the foreseeable future.

Contract Duration

The duration of the contract remains an area of continuing negotiating tension between carriers and shippers. With rates at historically low levels, shippers are eager to enter into long-term contracts, essentially "freezing" rates at current levels for terms longer than the traditional contract terms--12 months. Carriers are hoping for rates to turn upward and are generally unwilling to commit to current rates for longer than a 12-month contract term.

Delivery Date Guarantee

Another emerging trend is that carriers are increasingly willing to provide delivery date guarantees. As recently as 2 years ago, delivery date guarantees were routinely rejected by ocean carriers; they were rarely included in negotiated contracts. In the fourth quarter of 2001, for those shippers who request delivery date guarantees, approximately one-half of the contracts incorporate such guarantees.

Excusing Shipper Performance by Amendment or Force Majeure

Continuing a traditional practice that began in 1992, there is a willingness to amend an ocean transportation service contract in case of a shortfall, the inability of the shipper to deliver the contractually committed number of containers. In 1992, the Federal Maritime Commission (FMC) authorized parties to a service contract to amend a contract upon mutual agreement. The inability of the shipper to meet contractual commitments often relates to matters beyond its control. For example, for the poultry industry, the Russian currency devaluation of 1998 caused the immediate elimination of the Russian market and the cancellation of virtually all orders. Carriers recognized that this was a matter fully beyond the control of U.S. poultry exporters and amended contracts to reduce the shippers' contract minimum quantity commitments (MQC).

With the weakening economic climate and reduced consumer demand around the world for U.S. agricultural products, some U.S. agricultural exporters are unable to meet their quantity commitments. The carriers are recognizing the economic difficulties shippers are encountering. In hopes of maintaining a relationship with the shipper and the opportunity to carry that shippers' cargo in the future, the contract MQCs are being amended.

To avoid the need to amend a contract, the Force Majeure clauses are increasingly reflecting shipper impediments to contract compliance. The Force Majeure clause has traditionally been drafted to reflect carrier impediments, namely acts of war or weather-related calamities, which make it impossible to operate a ship safely. The trend, which has emerged since the implementation of OSRA, is to demand that the Force Majeure clause also reflect shipper concerns. These concerns include trade restrictions, such as high tariffs, or phytosanitary requirements imposed by trading partners. These can limit, often precipitously and severely, access of U.S. agricultural products to certain foreign markets.

Another provision finding its way into Force Majeure clauses is weather-related crop failure or harvest disruption. Some Force Majeure clauses include labor issues which result in harvest, processing, or packing interruptions. These provide symmetry to the Force Majeure clauses, which have traditionally contained "strikes" or "acts of God" as relieving the carrier from obligation to perform its duties under the contract.

Surcharges

Any discussion of rate levels must also include an assessment of surcharges. If the rate filed by the carrier at the FMC is low but is supplemented by surcharges, the rates negotiated in a contract are less meaningful.

As long as overcapacity remains a reality, the shippers' negotiating leverage will be reflected in their increased ability to lock in rates and avoid all future surcharges. During 2001, a trend toward "all-inclusive" (all-in) contracts emerged. A true "all-in" contract establishes a rate and certain surcharges. Rate increases, increases in

surcharges, or the imposition of new surcharges during the term of the contract are strictly forbidden. During 2001, "all-in" contracts have become increasingly common, although they are clearly not in the majority. Most contracts continue to allow carriers to impose new surcharges during the term of the contract, as long as the carrier has published the new surcharge in its tariff at the FMC.

It is in the area of surcharges that carrier stabilization agreements appear to achieve some uniformity in contract terms negotiated by the individual carriers. Some surcharges appear to be almost universally applied, such as the Bunker (fuel) Adjustment Factor, the Currency Adjustment Factor, and the war-risk surcharge for transit through the Suez Canal. On the other hand, the bill of lading surcharge and the chassis usage fee appear to be subject to some negotiation, with many shippers and carriers reporting that their recently negotiated contracts contain such extra fees, while other contracts do not. Approximately 65 percent of agricultural exporters are paying the bill of lading surcharge. The chassis surcharge is no longer being applied. It met significant resistance from the U.S. shipper community, and, as cargo volumes dropped and the pressures of overcapacity grew, the chassis surcharge has generally been discontinued.

War Risk

A trend which has emerged since September 11 is the imposition of war-risk surcharges to cover increased insurance premiums being imposed on carriers. Generally, war-risk surcharges are being imposed on shipments to Pakistan and the Middle East and voyages through the Suez Canal. There have been requests by the agricultural shipping community for the FMC to investigate the war-risk surcharges to determine if they are reasonable. However, consistent with long-term practice, the FMC is not investigating the carriers' costs, limiting its oversight to assuring that no surcharge is assessed unless it has been filed with the FMC in accordance with the statutorily required 30-day notice. In some cases, the FMC has waived the 30-day notice requirement for shipments to war zone areas. During the fourth quarter of 2001, carriers impacted by increased insurance costs have proposed to require the war-risk surcharge on shipments subject to contracts which specifically preclude the application of additional or new surcharges. In these situations, while most shippers are generally refusing to pay the requested surcharge, many have expressed a willingness to review the actual increased insurance premiums. It does not appear that carriers are sharing their actual insurance cost information with shippers.

Ultimately, the practical question is often whether surcharges, particularly new surcharges imposed during the life of the contract, must be absorbed by the shipper or can be passed on to the foreign customer. Three-fifths of agricultural shippers contacted report that they are able to pass new surcharges on to customers, while two-fifths report that they must absorb the costs as they are selling under fixed contract terms to the foreign agricultural buyer.

Confidentiality Becoming a Reality

OSRA allowed, for the first time, contract freight rates to be maintained confidentially between the carrier and the shipper, as they are now not required to be published. Common wisdom, during the first years of OSRA, has been that, sooner or later, contract rates will “leak out” so that shippers are aware of what their competitors are paying. Whether this information is being revealed by the shippers or the carriers has been a matter of some contention, but it has generally been agreed that, although no longer required to be published, the rates are hardly confidential.

During the latter half of 2001, a new trend appears to be emerging--increased confidence by shippers that their contract rates are remaining confidential. Consistent with this is the increasing recognition and acceptance by many shippers that they are unaware of what their competitors are paying for ocean transportation. This may be due to the fact that rates are at historically low levels and the differences in rates being paid by shippers, if any, are so minimal that they do not constitute a competitive factor among exporters of similar agricultural commodities. Also, with rates at such low levels, agricultural exporters are satisfied that they are meeting their needs in terms of affordable ocean transportation. Thus, they have less interest in knowing what their competitors are paying. In any case, it appears that, increasingly, shippers believe it is possible to keep negotiated contract rates confidential.

Documentation Improving

Another important trend relates to documentation. At the beginning of 2001, both shippers and carriers agreed that the provision of bills of lading by the carrier in a timely manner needed improvement. The carrier community was struggling with new automation and consolidation as well as the relocation of their documentation and customer service functions. In the latter half of 2001, timely delivery of bills of lading appears to no longer be problem, although concern as to the frequency of errors in bills of lading remains an issue.

Impact of Consolidation and Capacity Reduction

Consolidation in the ocean carrier industry, via merger, acquisition, or withdrawal of carriers from certain trades, is a continuing trend. However, the trend most apparent is the carrier initiative to address, both individually and collectively, the persistent and growing overcapacity problem. Reflecting the dramatic reduction in ocean shipping cargo volumes, such capacity reduction initiatives have not adversely impacted the availability of transportation options on most trade routes. However, the first evidence of reduced service has appeared in the all-water route from the U.S. West Coast to Northern Europe. Depending on global economics and cargo volume, this reduction of service and shortage of container space may spread to other routes. It will be particularly apparent for shippers requiring specialized (i.e., humidity- or temperature-controlled) containers. The continuing trend to reduce capacity is also evidenced by the elimination of certain U.S. port calls and reduction in frequency of service in the trades in which they remain. So far, these have not caused a delay for shippers.

Port Congestion

Port congestion has emerged as a significant factor in ocean transportation, particularly for West Coast ports, specifically the ports of Los Angeles and Long Beach in California. With weakening domestic consumer demand, the volume of import cargo has dropped dramatically. Carriers report that during 2001 there was no “peak season” in many trade lanes. This has been true for agricultural imports and exports as well. Therefore, during 2001, the issue of port congestion at southern California ports diminished dramatically. Agricultural exporters currently report no delays at West Coast ports, although some agricultural exporters and importers remain wary of congestion and delays at the ports. While port congestion is not currently being experienced and is not expected to be a major problem during 2002, avoidance of congested ports remains a criterion for agricultural shippers in their selection of carriers and routing.

Agricultural shippers are participating in an initiative to establish longer marine terminal gate hours at southern California ports. Shippers are willing to adjust warehouse, packing, and trucking practices as well as schedules to accommodate night gate hours, if established. It is widely anticipated that, should an increase in shipments occur, either import or export, congestion at southern California ports will again be an immediate concern.

Uncertainty Beyond Economics

Hanging over all projections is the uncertainty relating to the current war effort as well as incidents of terrorist activity in the United States. Should terrorist activity resume or increase or the war effort expand, it is possible that the ability to ship agricultural commodities from U.S. ports could be hindered and foreign demand for U.S. products diminished, a concern to agricultural shippers.

Significant additional military cargoes and materials must be transported to the Afghan front, which may address some of the overcapacity issues. It may also exacerbate service problems as the military cargoes are more attractive to carriers because they generate significantly higher revenues than do agricultural commodities.

Vessel security is another unknown factor. In the wake of September 11, Congress has moved forward with a number of initiatives to improve security and address terrorism concerns. The Executive Branch has undertaken its own initiatives, and additional initiatives are expected. For example, the U.S. Coast Guard is now enforcing regulations which require 96-hour notice before port entry. The Coast Guard is also boarding ships before they enter port harbors in the United States to check documentation of crew members, review cargo manifests, and inspect and secure the ship. While this has not been visible to the import-export community in most ports, it has been reported to be causing some delays in vessel traffic at southern California ports. This is due to a limited number of Coast Guard personnel as well as new practices relating to transit of cruise ships through ports. Before September 11, cruise ships transited ports without interrupting commercial cargo vessel movements. In the

wake of the terrorist attacks, the Coast Guard is halting all vessel traffic in a port while a cruise ship is in transit through that area. This is reported to be causing delays in the busiest U.S. ports.

Congress may also pass two pieces of legislation during the first half of 2000 that could further impact international ocean shipping, The Port and Maritime Security Act and The Port Threat Security Act. The Port and Maritime Security Act would include the mandatory submission electronically of manifest information to U.S. Customs officials prior to ship departure or arrival. If the Port Threat Security Act is enacted, non-U.S. flag vessels entering U.S. ports will face new reporting regulations. There is concern that the specificity of the information to be required could cause a delay in both the ability of ships to enter U.S. ports and the loading and departure schedule for ships departing with U.S. exports.

Agricultural exporters are particularly concerned with any requirement to specifically identify what amount of cargo is loaded on a particular vessel. Due to documentation delays, this information is often not known until after the vessel has been loaded and the ship has sailed. The agricultural community will need to work with ocean carriers, the U.S. Customs Service, and marine terminal operators to balance U.S. security needs and commercial business requirements during the first half of 2002 and beyond. See appendix II for further aftereffects related to the terrorist attacks.

Conclusion

In sum, the following elements characterize current trends and projections of future concerns through 2002:

- Long-term projections of overcapacity in trade lanes,
- Diminished demand for many U.S. agricultural products,
- Historically low carrier revenues and rates, and
- Uncertainty over the impact of the current war against terrorism.

Appendix I: Aftershocks of the September 11, 2001, Terrorist Attacks

Heightened concerns about the vulnerability of the Nation's transportation system in the wake of the September 11, 2001, terrorist attacks in New York and Washington, DC, have led to tighter security measures, causing delays in some shipments. The following list includes some of the aftershocks of the attacks as well as industry responses to fears of anthrax contamination. This list is provided to keep agricultural shippers informed about the events and issues that concern the ocean shipping industry.

- The uncertainty resulting from the attacks has placed added stress on the already weak economic environment, and carriers have reduced capacity in some trade lanes (see appendix II).
- Shipping lines operating in the Middle East have added wartime surcharges to rates to and from ports in this region (see section on "War Risk").
- The U.S. Coast Guard remains at a high level of security and continues port security operations nationwide. The number of special security zones surrounding facilities, such as nuclear power plants and piers, has been increased to 72.
- The U.S. Customs Service, which is on its highest level of alert, has increased its scrutiny of goods and people entering the country.
- The U.S. Coast Guard has begun its National Vessel Movement Center (NVMC) operations. With the exception of entry into the San Francisco Bay area in California, Advance Notices of Arrival as of October 15 must be submitted to the NVMC rather than to the local Captain of the Port.
- The U.S. Customs Service now forbids customs brokers to accept shipments from "unknown" consignors. Further, they are required to reject cargo with substandard documentation.
- The Port and Maritime Security Act, introduced before the terrorist attacks, is being considered by Congress for revision and strengthening.
- The U.S. Coast Guard has presented key elements of its Maritime Homeland Security Strategy to the Senate. The elements include: development of effective awareness of all activities that can affect the maritime security of the United States and its citizens; integration of activities of multiple agencies into a single, unified maritime effort; and conducting layered maritime security operations with the aim of extending the borders and deterring, disrupting, and intercepting threats across the maritime domain.
- A new bill, the Port Threat Security Act, has been introduced in the U.S. Senate. If enacted, non-U.S. flag vessels entering U.S. ports will face new reporting regulations. The bill would also require the U.S. Department of Transportation to establish teams to place sea marshals on vessels entering specific ports and assess security risks at foreign ports.
- The U.S. Customs Service has announced that, due to fears of anthrax contamination, shipments originating in Pakistan, regardless of port of destination, are now required to arrive at the Port of New York for thorough inspection. An additional fee will also be assessed due to the extra inspection requirement.
- On October 31, the U.S. Coast Guard announced that all suspected and actual terrorist incidents should be reported to one national telephone number (800-424-8802). The National Response Center (NRC) is the central point of contact for all oil, chemical, radiological, biological, and etiological releases anywhere in the United States. In addition to oil and hazardous substance releases, it was announced

that the NRC should be notified of any suspected terrorist incident, particularly those affecting transportation systems.

- After fearing anthrax infection, Russia temporarily banned shipments of meat and poultry from Florida in October. The ban was lifted after U.S. authorities proved that there was no recent case of livestock anthrax in Florida.
- Effective October 29, the Port of Vancouver, British Columbia, Canada, restricted the use of certain roadways to port-related traffic only.

Appendix II: The Cost of Exporting Agricultural Products to Asia

The United States Department of Agriculture has been tracking ocean container rates to Asia since 1997 using the tariffs filed with the Federal Maritime Commission and, since the implementation of OSRA, by the carriers electronically. Apple and cotton rates have been selected to act as the indicators of refrigerated and dry container rates, respectively, due to the amount of cargoes shipped each year and the number of Asian countries which receive both commodities. Rates are weighted and averaged according to each carrier's market share by commodity and by country. The resulting rate is meant to reflect the cost the U.S. exporter pays, on average, to ship apples or cotton to a particular country. Although roughly 90 percent of agricultural exports move under service contracts, carriers still adjust their tariff rates to reflect supply and demand in the shipping market. For example, 96 percent of tariff rates for apples and cotton changed between the first and second quarters of 2001.

Apple rates appear in figure 1 below. As discussed in the previous reports, rates for apples witnessed a decline in 1998. After the Asian crisis, as exports of U.S. apples and other goods fell, carriers lowered rates to attract new business. However, in 2000, the Asian economies began to recover, and the rates remained steady until they began to rise slightly in 2001 to the five representative countries. There will most likely not be any increases in the near future; the global container market industry has plunged into a "black hole" according to many of the industry experts. Freight rates are down 10-35 percent on many of the major trade routes. Carriers' excessive deploying of larger ships to reach economies of scale has undermined the market faster than carriers expected.

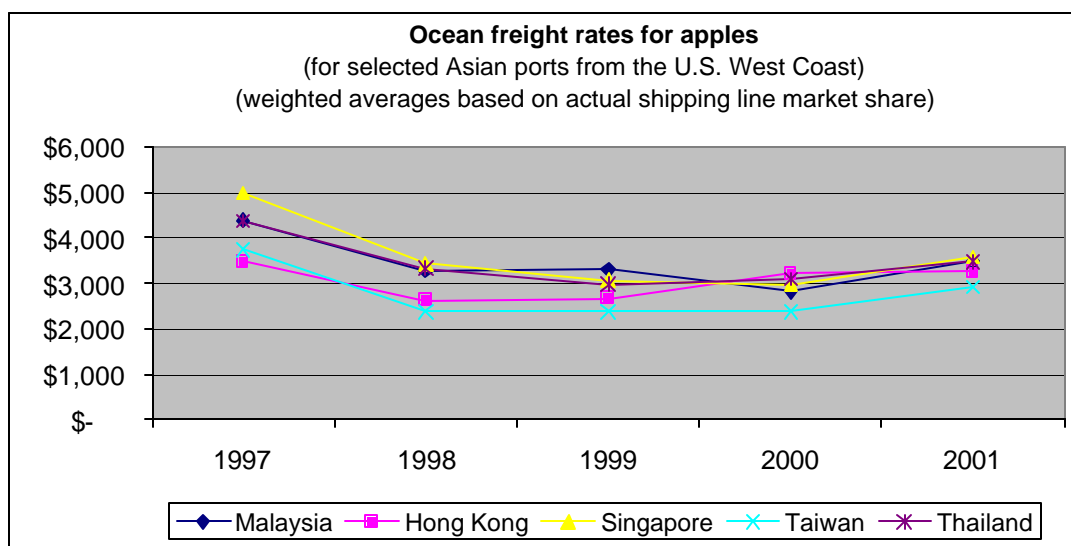


Figure 1: Ocean freight rates for fresh apples

Although, figure 2 shows a steady rise since June 2001, industry sources report that a decline in the rates in the next quarter is probable due to the slowing global

economy and the uncertainty caused by the terrorist attacks on the United States (see section entitled “Uncertainty Beyond Economics”).

Rates are at an all-time low, and this year is shaping up to be the worst for the liner shipping industry since the early 1980s. The concerns about the extent of the military

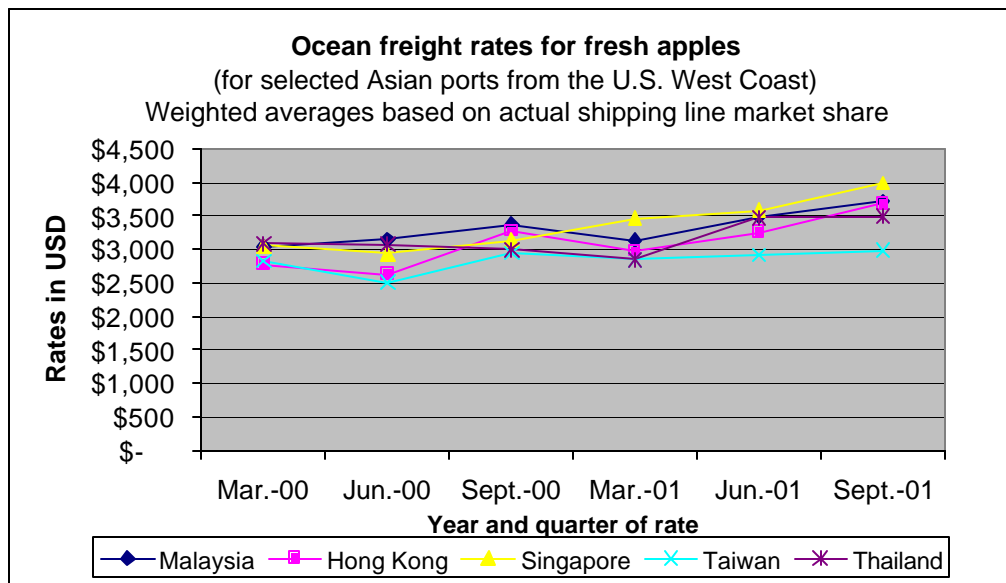


Figure 2: Ocean freight rates for fresh apples

responses to the terrorist attacks has led to high insurance premiums for liner shipping in certain areas of the world. These new premiums have resulted in several war-risk surcharges being implemented by economically strapped shipping lines. Surcharges of up to \$250 per 20-foot equivalent unit (TEU) for certain trade lanes in the Middle East have been announced.

Rates for fresh apples to Malaysia, Hong Kong, and Taiwan showed increases through the third quarter of 2000 and continued to rise, except for a slight decrease in the first quarter of 2001. Some of the increases can be attributed to surcharges for fuel and chassis as well as general rate increases. However, apple export rates dropped slightly during the first quarter for all trade lanes with a slight increase, thereafter in 2001. Singapore's rates, on the other hand, have increased steadily from \$3,100 during the third quarter of 2000 to almost \$4,000 in the third quarter of 2001.

The average freight rates for baled cotton shipped to various markets in Asia from 1997 to 2001 is depicted in figure 3. Cotton shipping rates fell steadily from 1997 through 1999 as a result of the Asian financial crisis. However, baled cotton exports grew stronger in 2000 than in previous years, and rates remained steady or increased. In 2001, however, shipping rates for baled cotton and other low-valued agricultural products, such as hay and animal feed, declined as well. In an attempt to shore up these falling rates in the westbound trade lanes, carriers in the Westbound Transpacific Stabilization Agreement are establishing a minimum rate level for wastepaper, hay, and scrap metal.

Rates will continue to decline and are expected to reach an all-time low by yearend. Due to the trade imbalance, ocean carriers are struggling to supply containers to the Asian market. Therefore, carriers have accepted low rates for these commodities in an effort to avoid moving empty containers overseas.

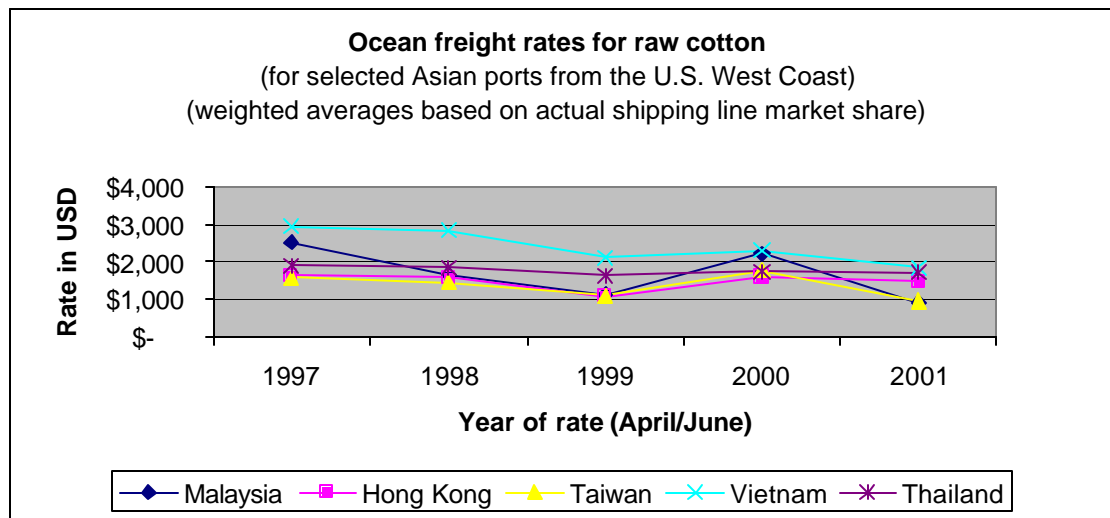


Figure 3: Ocean freight rates for raw cotton